

Message Text

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C O N F I D E N T I A L CARACAS 12064

EXDIS

EO 11652: GDS
TAGS: ENRG VE
SUBJ: OIL REVERISON - ARCO

REF: CARACAS 11413

1. PAUL RAVESIES, ARCO VICE PRESIDENT FOR EXPLORATION AND PRODUCTION, CALLED ON THE AMBASSADOR NOVEMBER 19 TO DISCUSS STATUS OF COMPANY'S NEGOTIATIONS. THE FOLLOWING INFORMATION WAS GIVEN AS PROPRIETARY AND IS NOT FOR DISSEMINATION TO THIRD PARTIES.

2. ARCO CONTINUES NOT TO BE SATISFIED WITH COMPENSATION IT WILL RECEIVE, BUT IS SCHEDULED TO SIGN FORMAL ACTA DE AVENIMIENTO ON NOVEMBER 20. RAVESIES HAS MET TWICE WITH MINES MINISTER HERNANDEZ AND OTHER MINISTRY OFFICIALS SINCE ARRIVING IN CARACAS NOVEMBER 16. ON NOVEMBER 17 HE EXCHANGED SIDE LETTERS WITH THE MINISTER (HE SIGNED AND THE MINISTER INITIALLED). THE LETTERS COVER MAINLY THE MECHANICS OF THE GUARANTEE FUND. ACCORDING TO THE MINISTER, ONLY CREOLE AND ARCO HAVE RECEIVED SUCH LETTERS.

3. THE LETTERS PROVIDE FOR RELEASE FROM THE GUARANTEE FUND OF COMPENSATION BONDS IN THE AMOUNT OF 80 PERCENT OF ASSETS INSPECTED AND CLASSIFIED AS IN GOOD CONDITION BY THE GOV. ARCO BELIEVES THAT APPROXIMATELY 90 PERCENT OF ITS ASSETS MEET THAT CRITERION, AND THUS ANTICIPATES THAT 72 PERCENT OF ITS COMPENSATION BONDS HELD IN THE FUND

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WILL BE RELEASED AS SOON AS THE INSPECTION OF ASSETS IS

COMPLETED. THE LETTERS CALL FOR THE INSPECTION TO BE COMPLETED BY MARCH 1976.

THE GOV HAS AGREED TO NOW PERMIT COMPENSATION BONDS TO BE USED TO PAY FOR 2.5 PERCENT OF OIL PURCHASES (IN 1976 AND UP TO ANY AMOUNT ACCORDING TO RAVESIES). THE LETTERS ALSO PROVIDE FOR SUBSTITUTION OF COMPENSATION BONDS IN THE GUARANTEE FUND FOR CASH NOW ON DEPOSIT AND PAYMENT FOR OIL AND MATERIAL INVENTORIES AS OF JANUARY 1, 1976.

4. RAVESIES INDICATED THAT ARCO WILL LOSE ABOUT \$6 MILLION OF COMPENSATION BY A DECISION OF THE GOV NOT TO ALLOW DEDUCTION OF EXPLORATION COST ON OIL PROPERTIES WHICH ARCO RELINQUISHED AS UNPROMISING SOME TIME AGO. ARCO HAS BEEN ATTEMPTING TO HAVE THIS DECISION REVERSED BY THE MINISTER, AND ALSO HAS CONTINUED TO PROTEST DRAINAGE DEDUCTIONS ON ITS LAKE MARACAIBO PARTICIPATION WITH SUN OIL. THE MINISTER HAS MADE ONLY VAGUE PROMISES TO "DO SOMETHING ABOUT THE PROBLEM NEXT YEAR". THE AMBASSADOR SUGGESTED THAT ARCO CONTINUE TO PRESS ON THESE POINTS, SEEKING COMMITMENTS FROM THE MINISTER TO ALLOW EXPENSING OF THESE DEDUCTIONS ON THE COMPANY'S TAX RETURN.

5. ACCORDING TO RAVESIES, ARCO HAS REVERSED AN EARLIER DECISION TO WALK AWAY FROM VENEZUELA FOR THE TIME BEING. THE COMPANY WILL NEGOTIATE A TECHNOLOGY CONTRACT WITH THE GOV IN ORDER TO KEEP A FOOT IN THE DOOR. THE COMPANY HAS MADE NO FORMAL PROPOSAL TO LIFT OIL AS YET. IT WILL AWAIT THE GOV OIL PRICE LIST WHICH IS EXPECTED TO BE RELEASED ON DECEMBER 1. PRELIMINARY INFORMATION INDICATES THAT THE LAGO MEDIO OIL WHICH ARCO PRODUCES WILL BE OFFERED AT \$12.20 OR \$12.30, AFTER INITIALLY BEING PRICED ABOUT 50 CENTS HIGHER. THE LOWER FIGURE APPEARS COMPETITIVE TO ARCO, AND IF THIS IS THE CASE, THE COMPANY MAY OFFER TO LIFT BETWEEN 60,000 AND 100,000 B/D. THE COMPANY WOULDN'T CONSIDER ITSELF TIED TO A LONG-TERM CONTRACT, SINCE THE PURCHASE AGREEMENTS WILL BE SUBJECT TO PRICE REVIEW EVERY THREE MONTHS.
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